

ORIGINAL

1 WILLIAM N. LOBEL - State Bar No. 93202
2 JEFFREY M. REISNER - State Bar No. 143715
3 TAVI C. FLANAGAN - State Bar No. 169156
4 MICHAEL D. GOOD - State Bar No. 176033
5 MIKE D. NEUE - State Bar No. 179303
THE LOBEL FIRM
A Limited Liability Partnership
19800 MacArthur Boulevard, Suite 1100
Irvine, California 92612-2425

6 Telephone: (949) 476-7400
7 Facsimile: (949) 476-7444

8 [Proposed] Attorneys for Debtor
and Debtor-in-Possession

U.S. BANKRUPTCY COURT
FILED
APR - 3 2000
BY: *[Signature]*
Jon D. Caretta, Clerk of Court
CENTRAL DISTRICT OF CALIFORNIA
Deputy Clerk

9 UNITED STATES BANKRUPTCY COURT

10 CENTRAL DISTRICT OF CALIFORNIA

11 SANTA ANA DIVISION

12 In re

13 FIRST ALLIANCE MORTGAGE COMPANY, a
14 California corporation,

15 Debtor and
16 Debtor-in-Possession.

17 Case No. SA 00-12370 LR

18 Chapter 11 Proceeding

19 JOINT EMERGENCY MOTION FOR
20 ORDER AUTHORIZING JOINT
21 ADMINISTRATION OF RELATED
22 CASES PURSUANT TO BANKRUPTCY
23 RULE 1015(b); MEMORANDUM OF
24 POINTS AND AUTHORITIES; AND
25 DECLARATION OF FRANCISCO
26 NEBOT IN SUPPORT THEREOF

27 [Identical Motion filed in related Chapter 11 cases of:
28 First Alliance Corporation, a Delaware corporation; First
Alliance Mortgage Company, a Minnesota corporation;
and First Alliance Portfolio Services, Inc., a Nevada
corporation]

THE LOBEL FIRM LLP
19800 MACARTHUR BOULEVARD, SUITE 1100
IRVINE, CALIFORNIA 92612-2425
(949) 476-7400

✓Copy
DLW

1 **TO THE HONORABLE LYNNE RIDDLE, UNITED STATES BANKRUPTCY JUDGE, THE**
2 **OFFICE OF THE UNITED STATES TRUSTEE, SECURED CLAIMANTS, THE**
3 **CLAIMANTS HOLDING THE TWENTY LARGEST GENERAL UNSECURED CLAIMS,**
4 **AND ANY PARTY REQUESTING SPECIAL NOTICE:**

5 First Alliance Mortgage Company, a California corporation ("FAMCO California"), First
6 Alliance Mortgage Company, a Minnesota corporation ("FAMCO Minnesota"), First Alliance
7 Corporation, a Delaware corporation ("FACO"), and First Alliance Portfolio Services, Inc., a Nevada
8 corporation ("FAPS"), the debtors and debtors-in-possession in this and other related Chapter 11
9 cases (collectively, the "Related Debtors"), hereby move this Court, pursuant to Rule 1015(b) of the
10 Federal Rules of Bankruptcy Procedure, for an order authorizing joint administration of their Chapter
11 cases, all of which are pending in the United States Bankruptcy Court for the Central District of
12 California.¹

13 The Related Debtors request joint administration of their cases with respect to administrative
14 matters only, including: (i) a joint pleadings docket (excluding, subject to further order of the Court,
15 the listing of filed claims); (ii) a joint pleadings caption; and (iii) combined notices to creditors. The
16 Related Debtors do not request substantive consolidation of their cases at this time.

17 This Motion is made and based upon the moving papers, the Memorandum of Points and
18 Authorities and Declaration of Francisco Nebot annexed hereto ("Nebot Declaration"), the record in
19 these cases, including the pleadings and documents filed on behalf of parties, the arguments and
20 representations of counsel, and any oral or documentary evidence presented at the time of the hearing
21 on this Motion.

22 The grounds for the relief requested by the Motion are as follows:

- 23 1. The Related Debtors have been primarily engaged in mortgage loan origination and
24 loan servicing for over 25 years. Specifically,
25 • FAMCO California engaged in the business of loan origination and servicing
26 operations through its retail branch offices located in eighteen (18) states and

27
28 ¹ For the ease of the Court, the Related Debtors have filed this Motion jointly. An identical Motion has been filed
in each of the Related Debtors' cases.

the District of Columbia. These loans typically consisted of so-called “sub-prime” fixed and adjustable rate loans secured by first mortgages on single family residences. Periodically, after certain loans were generated, FAMCO California would securitize a pool of loans using a REMIC (Real Estate Mortgage Investment Conduit) trust or sell the loans to wholesale purchasers. A significant portion of FAMCO California’s loans were securitized with FAMCO California retaining the right to service the loans, and to collect payments for the “owner” of the notes in exchange for a fee. Although FAMCO California has discontinued its loan origination business, it anticipates the continuation, at least in the short term, of its loan servicing operations.

- FAPS has acted as a recipient for Residual Interest Differential income otherwise due to FAMCO California from loans assigned to a REMIC trust.² Specifically, FAMCO California has assigned its right to receive the Residual

² In simplified terms, Residual Interest Differential income is the income derived from the difference between (i) the interest payable by borrowers in a pool of loans assigned to the REMIC trust, and (ii) the yield owed by the REMIC trust to holders of asset-backed security bonds and the servicing fees associated with the pool of loans. Residual Interest Income arises from the differing levels of risk that inure at different points in the securitization process. That process, and the generation of Residual Interest Income, works in the following manner:

When the loans originated by FAMCO California are pooled and assigned to a REMIC trust, asset backed security bonds (i.e., certificated interests in the REMIC trust) are issued and sold by the REMIC trust to the public. Because of the fact that the risk associated with a pool of real estate mortgages is lower than the risk associated with the individual mortgages held in the pool, that lower risk, combined with (i) an overcollateralization factor maintained in the REMIC trust (typically 3%), and (ii) the maintenance of third-party insurance in connection with the pooled loans, results in a lower yield demanded by and paid to the holders of the certificated interests in the REMIC trust (i.e., the holders of asset-backed security bonds). As a result, the yield paid by the REMIC trust to holders of asset-backed security bonds (combined with the servicing fees owed by the REMIC trust), is lower than the rate of interest payable to the REMIC trust by the individual borrowers making payments in connection with the mortgages held in the pool. This difference comprises the Interest Rate Differential.

As a concrete example, if a pool of loans with an average interest rate of ten percent (10%) *per annum* was placed into a REMIC trust along with the appropriate overcollateralization (typically 3%), and the loans were insured, the yield payable by the REMIC to holders of the asset backed security bonds in the REMIC trust may be several points lower than the interest payable to the REMIC by the individual borrowers. For purposes of illustration, if the individual borrowers are paying ten percent (10%) *per annum*, the servicer (FAMCO California) receives a 0.5% fee (computed on an annual basis, and billed monthly), and holders of asset-backed securities receive a yield of six and one-half percent (6.5%) based on the aggregate risk of the loan portfolio, the difference between interest paid to the REMIC trust by individual borrowers in the pool of loans (10%), and interest paid by the REMIC trust to holders of securities (6.5%), combined with servicing fees on the loan portfolio (0.5%) is three percent (3%). It is this difference which comprises the Interest Rate Differential.

Interest Differential from numerous REMIC trust transactions to FAPS. The primary reason for the creation of a separate entity to collect the Residual Interest Differential was to obtain the income tax benefits appurtenant to Nevada-based businesses. Prepetition, funds received by FAPS in connection with Residential Interest Differential payments were provided to FACO for distribution to FAMCO California, FACO, and First Alliance Services ("FAS") (a wholly owned subsidiary of FACO and a non-debtor entity)³ as necessary to pay operating expenses of the members thereof. FAPS is 100% owned by FAMCO California, which also has 100% ownership of FAMCO Minnesota (see discussion below).

- FACO is a publicly traded holding company and corporate parent of FAMCO California. FACO holds 100% of the stock of FAMCO California, and of FAS.
- FAMCO Minnesota, like FAPS, is a wholly-owned subsidiary of FAMCO California. FAMCO Minnesota was established for the purpose of complying with Minnesota law, which requires that mortgage lenders operating in the state of Minnesota must be incorporated in the state of Minnesota. As of the date of the filing of its Chapter 11 petition, FAMCO Minnesota had discontinued its operations in Minnesota and had no employees.

A chart setting forth the organizational structure of the Related Debtors is attached as Exhibit "1" to the Nebot Declaration.

2. There is substantial overlap with respect to the creditors of the Related Debtors since many obligations and expenses are allocated, as appropriate, among the Related Debtors. In light of this overlap, the Related Debtors believe that joint administration will avoid otherwise unnecessary and expensive duplication of effort and papers caused by preparing and serving the same creditors and

³ FAS was created for the specific purpose of reducing the net cost associated with the Related Debtors' banking needs. Because of certain banking regulations, the Related Debtors were required to create a separate entity with its own employees which would provide services that could be considered "banking related." In addition to providing banking-related services which directly and exclusively benefit FAMCO California, FAS provides payroll and accounting services to FAMCO California. FAMCO California pays FAS for the services rendered to FAMCO California in the ordinary course of business.

1 interest holders with multiple sets of differently captioned but otherwise identical papers. Moreover, it
2 is virtually certain that numerous motions filed in the Related Debtors' cases will concern two or more
3 of the Related Debtors, and many will affect all of the Related Debtors. Again, the Related Debtors
4 believe that joint administration will avoid unnecessary and expensive duplication of effort and papers
5 caused by preparing the same motion with different captions.

6 3. By jointly administering the Related Debtors' estates, creditors and interest holders will
7 receive appropriate notice of matters involving all of the Related Debtors, thereby ensuring that
8 creditors and interest holders are fully informed of matters potentially affecting their claims. In short,
9 joint administration of the Related Debtors' cases, including (i) the use of a single pleadings docket,
10 (ii) the combining of notices to creditors and interest holders of the different estates, and (iii) the joint
11 handling of other purely administrative matters will aid in expediting the cases and rendering the
12 process substantially less costly, without prejudicing the substantive rights of any creditor or interest
13 holder.

14 4. The Related Debtors propose that all pleadings relating to any or all of the Related
15 Debtors' cases shall contain a joint caption in substantially the form attached as Exhibit "2" to the
16 Nefot Declaration, and that all such pleadings shall be filed and maintained under the existing docket
17 for FAMCO California. However, each pleading filed will indicate either (i) that all the Related
18 Debtors are parties to or are affected by the pleading, or (ii) if only certain of the Related Debtors are
19 involved, which of the Related Debtors are parties to or are affected by the pleading.

20 5. Nothing contained in this Motion is intended to compel substantive consolidation of the
21 Related Debtors' respective estates. Since the Related Debtors request only joint administration by
22 this Motion, no substantive rights will be prejudiced by the relief requested herein, and no conflicts
23 will result therefrom. In the event substantive consolidation of the Related Debtors' estates is
24 warranted, the Related Debtors will bring a separate motion requesting such relief.

25 6. The Court may schedule a hearing on the Motion within forty-eight (48) hours of the
26 filing of the Motion. Concurrently with the filing of this Motion, the Related Debtors, via overnight
27 delivery, served this Motion on the following parties: (1) the Office of the United States Trustee;
28 (2) each of the Related Debtors' twenty (20) largest general unsecured creditors; (3) all secured

1 creditors; and (4) any party requesting special notice. After obtaining a hearing date on this Motion,
2 the Related Debtors will serve a notice of the hearing on this Motion, via overnight delivery, on the
3 above-referenced parties.

4 **WHEREFORE**, the Related Debtors request that the Court enter an order:

- 5 a. Granting this Motion;
6 b. Directing the joint administration of the Related Debtors' Chapter 11 cases; and
7 c. For such other and further relief as this Court deems just and proper.

8 DATED: April 3, 2000

THE LOBEL FIRM LLP

9 By: T.C. Flanagan

10 William N. Lobel
11 Jeffrey M. Reisner
12 Tavi C. Flanagan
13 Michael D. Good
14 Mike D. Neue

15 [Proposed] Attorneys for Debtor and Debtor-in-
16 Possession

17 THE LOBEL FIRM LLP
18 19800 MACARTHUR BOULEVARD, SUITE 1100
19 IRVINE, CALIFORNIA 92612-2425
20 (714) 750-7400

MEMORANDUM OF POINTS AND AUTHORITIES

I.

STATEMENT OF FACTS

For purposes of brevity, the Related Debtors hereby incorporate by reference those facts set forth in the Motion and in the accompanying Nebot Declaration.

III.

JOINT ADMINISTRATION OF THE RELATED DEBTORS' CASES

WOULD YIELD SUBSTANTIAL ADMINISTRATIVE BENEFITS

Although the Bankruptcy Code specifically provides for joint administration of limited types of cases (See 11 U.S.C. § 302(a) (permitting the filing of joint petitions by spouses)), there is no provision in the Code governing joint administration of cases generally. Bankruptcy Rule 1015(b), however, makes clear that joint administration may be appropriate when two or more related debtor entities, whether spouses, partnerships, or corporations, have filed for protection under the Code.

Bankruptcy Rule 1015 provides, *inter alia*:

(b) Cases Involving Two or More Related Debtors. If a joint petition or two or more petitions are pending in the same court by or against . . . a debtor and an affiliate, the court may order a joint administration of the estates . . .

* * *

(c) Expediting and Protective Orders. When an order for . . . joint administration of a joint case or two or more cases is entered pursuant to this rule, while protecting the rights of the parties under the Code, the court may enter orders as may tend to avoid unnecessary costs and delay.

¹Fed. R. Bankr. Proc. 1015(b) and (c) (2000).

Bankruptcy Rule 1015 promotes the fair and efficient administration of related cases of affiliated debtors, while ensuring that no rights of individual creditors are unduly prejudiced.

^{See} 8 Collier on Bankruptcy, ¶ 1015.05 (15th ed. 1990); See also In re Brookhollow Assocs., 435 F.

1 Supp. 763, 766 (D. Mass. 1977) (joint administration “help[s] the bankruptcy court to administer
2 economically and efficiently different estates with substantial interests in common”), aff’d, 575 F.2d
3 1003 (1st Cir. 1978); In re N.S. Garrott & Sons, 63 B.R. 189, 191 (Bankr. E.D. Ark. 1986); In re H &

4 S Transportation Co., 55 B.R. 786, 791 (Bankr. M.D. Tenn. 1985). As set forth in the official
5 Advisory Committee Note to Rule 1015:

6 Joint administration as distinguished from consolidation may include
7 combining the estates by using a single docket for the matters occurring
8 in the administration, including the listing of filed claims, the combining
9 of notices to creditors of the different estates, and the joint handling of
10 other purely administrative matters that may aid in expediting the cases
11 and rendering the process less costly.

12 Joint administration differs significantly from substantive consolidation, in which the assets
13 and liabilities are pooled and, generally, the creditors of the separate entities share pro rata in the
14 aggregate net value of the estates. See In re Standard Brands Paint Co., 154 B.R. 563 (Bankr. C.D.
15 Cal. 1993); In re I.R.C.C., Inc., 105 B.R. 237, 241 (Bankr. S.D.N.Y. 1989). Joint administration, by
16 contrast, is merely procedural, and has no impact on the substantive rights of creditors. Garrott, 63
17 B.R. at 191; In re Arnold, 33 B.R. 765, 767 (Bankr. E.D.N.Y. 1983). Thus, joint administration does
18 not in itself prejudice the rights of any creditor.

19 Joint administration is warranted in the Related Debtors’ cases. As set forth at Exhibit “1,” all
20 of the Related Debtors have been part of a common enterprise – the origination and servicing of
21 mortgage loans. Based on these relationships and the integration of operations and centralization of
22 management, the Related Debtors plainly are “related” and are “affiliate[s]” as those terms are used in
23 the Bankruptcy Code. See 11 U.S.C. § 101(2). Moreover, the Related Debtors have not operated as
24 stand-alone businesses, but rather as an integrated enterprise, and each Related Debtor has been
25 dependent upon the other for its day-to-day operations.

26 Joint administration will greatly reduce the costs of administering the Related Debtors’ cases
27 and will serve to eliminate the inefficiency created by maintaining numerous separate dockets. To a
28 great extent, for each set of pleadings to be filed in the Related Debtors’ cases, the only material

1 differences between each pleading will be in the captions; since substantive matters affecting one
2 estate typically will affect other or all estates. Without the cost benefits associated with joint
3 administration, separate pleadings must be filed in each matter, and an enormous amount of
4 unnecessary copying will need to be done at substantial cost to the estates -- all without any additional
5 benefit to creditors or interest holders. Moreover, such unnecessary duplication would severely tax the
6 administrative facilities of the Related Debtors and their attorneys, diverting valuable resources away
7 from addressing substantive issues, including the orderly wind-down of the Related Debtors'
8 businesses and the formulation of plan(s) of reorganization. Additionally, the filing of separate
9 pleadings in each of the Related Debtors' cases undoubtedly would create a significant burden for the
10 Bankruptcy Clerk's Office, which must process and store the literally thousands of pages of pleadings
11 that may be filed in these cases.

12 Moreover, there is substantial overlap between the Related Debtors' creditors and interest
13 holders. If the Related Debtors' cases were administered separately, the Related Debtors would be
14 unnecessarily burdened with providing creditors and interest holders with multiple copies of the same
15 notice of important events in their cases. Such redundancy and unnecessary duplication would not
16 only be costly to the estates but would create no counterbalancing benefit for the respective creditors
17 or interest holders.

18 The burden of separate administration would be similarly felt by the Related Debtors' creditors
19 and interest holders. As with the Related Debtors, if the cases are not administratively consolidated,
20 creditors and interest holders will also be required to file multiple copies of pleadings which pertain to
21 more than one Related Debtor in each of the cases for no reason other than to maintain separate
22 dockets and files. Moreover, by maintaining separate cases, some creditors and interest holders may
23 be confused unnecessarily. By jointly administering the estates, creditors and interest holders will
24 receive notice of matters involving all Related Debtors, thereby ensuring that they are fully informed
25 of matters potentially affecting their claims.

1 III.
2
3
4

**THERE ARE NO ACTUAL CONFLICTS OF INTEREST BETWEEN
THE RELATED DEBTORS AND, THEREFORE, NO CREDITORS OR
INTEREST HOLDERS WILL BE PREJUDICED BY JOINT ADMINISTRATION**

5 There would be no material prejudice to creditors or interest holders were the Related Debtors'
6 estates to be jointly administered. Indeed, as discussed above, joint administration would benefit all
7 creditors and interest holders by substantially reducing costs and administrative burdens in general.
8 As for the possibility of conflicts of interest, it is highly unlikely that any conflicts exist which would
9 prejudice the creditors or interest holders of any of the Related Debtors' estates. As discussed above,
10 in certain respects the Related Debtors have operated as an integrated enterprise. In order to effect the
11 orderly liquidation contemplated by each of the Related Debtors, continued cooperation between the
12 Related Debtors is essential.

13 There may exist certain intercompany claims between the Related Debtors. For the most part,
14 however, these intercompany claims are undisputed, fixed, matured, or liquidated. Thus, there can be
15 no real "dispute" between the Related Debtors regarding these claims. See In re O'Connor, 52 B.R.
16 892, 896 (Bankr. W.D. Okla. 1985) (considering possibility of conflicts in the context of joint
17 representation of professionals). Moreover, it is well-established that intercompany claims are not
18 sufficient in themselves to preclude joint representation by a single professional; Courts have
19 repeatedly held that there is no per se rule against representation of multiple entities who may have
20 claims against each other. See In re BH & P Inc., 949 F.2d 1300, 1315-16 (3d Cir. 1991) (holding that
21 courts must take a "flexible" approach in considering employment of professionals and that "the
22 existence of interdebtor claims is . . . no longer an automatic ground for disqualification of
23 counsel"); In re International Oil Co., 427 F.2d 186, 187 (2d Cir. 1970) (existence of
24 intercompany claims was not "sufficient to saddle . . . estates [of four affiliated corporations] with the
25 expense of separate [counsel]"); In re Roberts, 75 B.R. 402, 405-06 (D. Utah 1987); In re Global
26 Marine, Inc., 108 B.R. 998, 1004 (Bankr. S.D. Tex. 1989); In re Star Broadcasting, 81 B.R. 835, 844
27 (Bankr. D.N.J. 1988). If the existence of certain intercompany claims would not be sufficient to
28

1 preclude joint representation by professionals, it certainly should not be sufficient to preclude joint
2 administration under the Court's continued supervision.

3 **IV.**

4 **WERE AN ACTUAL CONFLICT TO ARISE IN THE COURSE OF THE RELATED**
5 **DEBTORS' CASES, THE COURT MAY ALLEVIATE ANY PREJUDICE TO CREDITORS**
6 **PURSUANT TO ITS DISCRETION UNDER BANKRUPTCY RULE 1015(C)**

7 Although the Related Debtors do not believe that an actual conflict will arise between the
8 various estates, were one to arise in the future the Court could easily alleviate any prejudice it may
9 cause to creditors or interest holders through the Court's broad powers to oversee the joint
10 administration of the Related Debtors' cases. As discussed above, joint administration is a procedural
11 device designed to reduce costs and administrative burdens generally. Were a conflict to arise during
12 the cases, the Court may step in and limit joint administration to the extent necessary to alleviate any
13 negative effects of the conflict. Under Bankruptcy Rule 1015(c), "while protecting the rights of
14 parties under the Code, the court may enter orders as may tend to avoid unnecessary costs and delay."
15 Exercising its discretion under this Rule, the Court would be able to promote the interests of the
16 estates through administrative efficiency, while at the same time protecting the rights of individual
17 creditors and interest holders if and when the need arises. Until an actual conflict arises, however,
18 there is no reason why the Court should not authorize joint administration.

19 **V.**

20 **CONCLUSION**

21 The primary goal of a Chapter 11 reorganization is to maximize the value of a debtor's estate
22 for the benefit of creditor and equity constituencies. Related to that goal, and of significant
23 importance as well, is the efficient administration of the bankruptcy case so that the debtor can emerge
24 quickly and begin distributions to creditors. Both of these goals will be furthered by permitting the
25 joint administration of the Related Debtors' cases.

26 Based upon the foregoing arguments and authorities and the evidence before this Court, the
27 Related Debtors respectfully submit that the Court should enter an order:

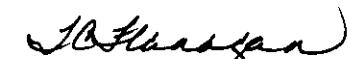
28 a. Granting this Motion;

- 1 b. Directing the joint administration of the Related Debtors' Chapter 11 cases; and
2 c. For such other and further relief as this Court deems just and proper.

3 DATED: April 3, 2000

THE LOBEL FIRM LLP

5 By:



6 William N. Lobel

7 Jeffrey M. Reisner

8 Tavi C. Flanagan

Michael D. Good

Mike D. Neue

9 [Proposed] Attorneys for Debtor and Debtor-in-
Possession

10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

THE LOBEL FIRM LLP
19800 MACARTHUR BOULEVARD, SUITE 1100
IRVINE, CALIFORNIA 92612-2425
(714) 476-7400

DECLARATION OF FRANCISCO NEBOT

I, Francisco Nebot, hereby declare and state as follows:

1. I am the President and Chief Financial Officer of First Alliance Mortgage Company, a California corporation (“FAMCO California”), First Alliance Mortgage Company, a Minnesota corporation (“FAMCO Minnesota”), First Alliance Corporation, a Delaware corporation (“FACO”), and First Alliance Portfolio Services, Inc., a Nevada corporation (“FAPS”), the debtors and debtors-in-possession in this and other related Chapter 11 cases (collectively, the “Related Debtors”), and I am authorized to give this declaration on behalf of the Related Debtors. The matters stated herein are within my personal knowledge and, if called as a witness, I could and would competently testify thereto.

2. In each of the above-referenced capacities, my primary responsibilities are to oversee the day-to-day operations of the Related Debtors' businesses, to coordinate those operations in compliance with the requirements for operating as debtors-in-possession and to create strategies and engage in negotiations with respect to the formulation of a Chapter 11 plan of reorganization in each of the Related Debtors' cases. This declaration is given in support of the Related Debtors' Joint Emergency Motion for Order Authorizing Joint Administration of Related Cases Pursuant to Bankruptcy Rule 1015(b).

3. The Related Debtors have been primarily engaged in mortgage loan origination and loan servicing for over 25 years. Specifically,

- FAMCO California engaged in the business of loan origination and servicing operations through its retail branch offices located in eighteen (18) states and the District of Columbia. These loans typically consisted of so-called “sub-prime” fixed and adjustable rate loans secured by first mortgages on single family residences. Periodically, after certain loans were generated, FAMCO California would securitize a pool of loans using a REMIC (Real Estate Mortgage Investment Conduit) trust or sell the loans to wholesale purchasers. A significant portion of FAMCO California’s loans were securitized with FAMCO California retaining the right to service the loans, and to collect

1 payments for the "owner" of the notes in exchange for a fee. Although
2 FAMCO California has discontinued its loan origination business, it anticipates
3 the continuation, at least in the short term, of its loan servicing operations.

- 4 • FAPS has acted as a recipient for Residual Interest Differential income
5 otherwise due to FAMCO California from loans assigned to a REMIC trust. In
6 simplified terms, Residual Interest Differential income is the income derived
7 from the difference between (i) the interest payable by borrowers in a pool of
8 loans assigned to the REMIC trust, and (ii) the yield owed by the REMIC trust
9 to holders of asset-backed security bonds and the servicing fees associated with
10 the pool of loans. Residual Interest Income arises from the differing levels of
11 risk that inure at different points in the securitization process. That process, and
12 the generation of Residual Interest Income, works in the following manner:
13 When the loans originated by FAMCO California are pooled and assigned to a
14 REMIC trust, asset backed security bonds (i.e., certificated interests in the
15 REMIC trust) are issued and sold by the REMIC trust to the public. Because of
16 the fact that the risk associated with a pool of real estate mortgages is lower
17 than the risk associated with the individual mortgages held in the pool, that
18 lower risk, combined with (i) an overcollateralization factor maintained in the
19 REMIC trust (typically 3%), and (ii) the maintenance of third-party insurance in
20 connection with the pooled loans, results in a lower yield demanded by and paid
21 to the holders of the certificated interests in the REMIC trust (i.e., the holders of
22 asset-backed security bonds). As a result, the yield paid by the REMIC trust to
23 holders of asset-backed security bonds (combined with the servicing fees owed
24 by the REMIC trust), is lower than the rate of interest payable to the REMIC
25 trust by the individual borrowers making payments in connection with the
26 mortgages held in the pool. This difference comprises the Interest Rate
27 Differential.

As a concrete example, if a pool of loans with an average interest rate of ten percent (10%) *per annum* was placed into a REMIC trust along with the appropriate overcollateralization (typically 3%), and the loans were insured, the yield payable by the REMIC to holders of the asset backed security bonds in the REMIC trust may be several points lower than the interest payable to the REMIC by the individual borrowers. For purposes of illustration, if the individual borrowers are paying ten percent (10%) *per annum*, the servicer (FAMCO California) receives a 0.5% fee (computed on an annual basis, and billed monthly), and holders of asset-backed securities receive a yield of six and one-half percent (6.5%) based on the aggregate risk of the loan portfolio, the difference between interest paid to the REMIC trust by individual borrowers in the pool of loans (10%), and interest paid by the REMIC trust to holders of securities (6.5%), combined with servicing fees on the loan portfolio (0.5%) is three percent (3%). It is this difference which comprises the Interest Rate Differential. Specifically, FAMCO California has assigned its right to receive the Residual Interest Differential from numerous REMIC trust transactions to FAPS. The primary reason for the creation of a separate entity to collect the Residual Interest Differential was to obtain the income tax benefits appurtenant to Nevada-based businesses. Prepetition, funds received by FAPS in connection with Residential Interest Differential payments were provided to FACO for distribution to FAMCO California, FACO, and First Alliance Services ("FAS") (a wholly owned subsidiary of FACO and a non-debtor entity)⁴ as necessary to pay operating expenses of the members thereof. FAPS is 100% owned by

⁴ FAS was created for the specific purpose of reducing the net cost associated with the Related Debtors' banking needs. Because of certain banking regulations, the Related Debtors were required to create a separate entity with its own employees which would provide services that could be considered "banking related." In addition to providing banking-related services which directly and exclusively benefit FAMCO California, FAS provides payroll and accounting services to FAMCO California. FAMCO California pays FAS for the services rendered to FAMCO California in the ordinary course of business.

1 FAMCO California, which also has 100% ownership of FAMCO Minnesota
2 (see discussion below).

- 3 • FACO is a publicly traded holding company and corporate parent of FAMCO
4 California. FACO holds 100% of the stock of FAMCO California, and of FAS.
5 • FAMCO Minnesota, like FAPS, is a wholly-owned subsidiary of FAMCO
6 California. FAMCO Minnesota was established for the purpose of complying
7 with Minnesota law, which requires that mortgage lenders operating in the state
8 of Minnesota must be incorporated in the state of Minnesota. As of the date of
9 the filing of its Chapter 11 petition, FAMCO Minnesota had discontinued its
10 operations in Minnesota and had no employees.

11 A chart setting forth the organizational structure of the Related Debtors is attached as Exhibit
12 "1" hereto.

13 4. There is substantial overlap with respect to the creditors of the Related Debtors since
14 many obligations and expenses are allocated, as appropriate, among the Related Debtors. In light of
15 this overlap, the Related Debtors believe that joint administration will avoid otherwise unnecessary
16 and expensive duplication of effort and papers caused by preparing and serving the same creditors and
17 interest holders with multiple sets of differently captioned but otherwise identical papers. Moreover, it
18 is virtually certain that numerous motions filed in the Related Debtors' cases will concern two or more
19 of the Related Debtors, and many will affect all of the Related Debtors. Again, the Related Debtors
20 believe that joint administration will avoid unnecessary and expensive duplication of effort and papers
21 caused by preparing the same motion with different captions.

22 5. By jointly administering the Related Debtors' estates, creditors and interest holders will
23 receive appropriate notice of matters involving all of the Related Debtors, thereby ensuring that
24 creditors and interest holders are fully informed of matters potentially affecting their claims. In short,
25 joint administration of the Related Debtors' cases, including (i) the use of a single pleadings docket,
26 (ii) the combining of notices to creditors and interest holders of the different estates, and (iii) the joint
27 handling of other purely administrative matters will aid in expediting the cases and rendering the

1 process substantially less costly, without prejudicing the substantive rights of any creditor or interest
2 holder.

3 6. The Related Debtors propose that all pleadings relating to any or all of the Related
4 Debtors' cases shall contain a joint caption in substantially the form attached as Exhibit "2" to the
5 Nebot Declaration, and that all such pleadings shall be filed and maintained under the existing docket
6 for FAMCO California. However, each pleading filed will indicate either (i) that all the Related
7 Debtors are parties to or are affected by the pleading, or (ii) if only certain of the Related Debtors are
8 involved, which of the Related Debtors are parties to or are affected by the pleading.

9 7. Nothing contained in this Motion is intended to compel substantive consolidation of the
10 Related Debtors' respective estates. Since the Related Debtors request only joint administration by
11 this Motion, no substantive rights will be prejudiced by the relief requested herein, and no conflicts
12 will result therefrom. In the event substantive consolidation of the Related Debtors' estates is
13 warranted, the Related Debtors will bring a separate motion requesting such relief.

14 8. Joint administration clearly is warranted in the Related Debtors' cases. As set forth on
15 Exhibit "1," all of the Related Debtors have common ultimate ownership. Based on these
16 relationships and the substantial integration of operations and centralization of management, I have
17 been advised that the Related Debtors are "related" and are "affiliate[s]" as those terms are used in the
18 Bankruptcy Code. Moreover, the Related Debtors do not operate as stand-alone businesses, but rather
19 as an integrated enterprise, and each Related Debtor is dependent upon the others for its day-to-day
20 operations.

21 9. The Related Debtors believe that joint administration will greatly reduce the costs of
22 administering the Related Debtors' cases and would serve to eliminate the inefficiency created by
23 maintaining numerous separate dockets. To a great extent, for each set of pleadings to be filed in the
24 Related Debtors' cases, the only material differences between each pleading will be in the captions;
25 since substantive matters affecting one estate typically will affect other or all estates. By requiring
26 separate pleadings to be filed in each matter, an enormous amount of copying will need to be done at
27 substantial cost to the estates without any additional benefit to creditors or interest holders. Moreover,
28 such duplication would severely tax the administrative facilities of the Related Debtors and their

1 attorneys, diverting valuable resources away from addressing substantive issues, including the
2 continued operations of the Related Debtors' businesses and the formulation of plan(s) of
3 reorganization. Additionally, the filing of separate pleadings in each of the Related Debtors' cases
4 undoubtedly would create a significant burden for the Bankruptcy Clerk's Office, which must process
5 and store the literally thousands of pages of pleadings that may be filed in these cases.

6 10. Moreover, there is overlap between the Related Debtors' creditors and interest holders.
7 If the Related Debtors' cases were administered separately, the Related Debtors would be
8 unnecessarily burdened with providing creditors and interest holders with multiple copies of the same
9 notice of important events in their cases. Such redundancy and unnecessary duplication would not
10 only be costly to the estates but would create no counterbalancing benefit for their creditors or interest
11 holders.

12 11. The burden of separate administration will be similarly felt by the Related Debtors'
13 creditors and interest holders. As with the Related Debtors, if the cases are not administratively
14 consolidated, creditors and interest holders will also be required to file multiple copies of pleadings
15 which pertain to more than one Related Debtor in each of the cases for no reason other than to
16 maintain separate dockets and files. Moreover, by maintaining separate cases, some creditors and
17 interest holders may be confused unnecessarily. By jointly administering the estates, creditors and
18 interest holders will receive notice of matters involving all Related Debtors, thereby insuring that they
19 are fully informed of matters potentially affecting their claims.

THE LOBEL FIRM LLP
19800 MACARTHUR BOULEVARD, SUITE 1100
IRVINE, CALIFORNIA 92612-2425
(949) 476-7400

20
21
22
23
24
25
26
27
28

1 12. There would be no material prejudice to creditors or interest holders were the Related
2 Debtors' estates to be jointly administered. Indeed, as discussed above, joint administration would
3 benefit all creditors and interest holders by substantially reducing costs and administrative burdens in
4 general. As for the possibility of conflicts of interest, it seems highly unlikely that any conflicts exist
5 which would prejudice the creditors or interest holders of any of the Related Debtors' estates. As
6 discussed above, in certain respects the Related Debtors operate as an integrated enterprise. As
7 presently constituted, it would be difficult, at best, for the Related Debtors to continue to operate
8 without continued cooperation between them.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this _____ day of April, 2000, at _____, California.

FRANCISCO NEBOT

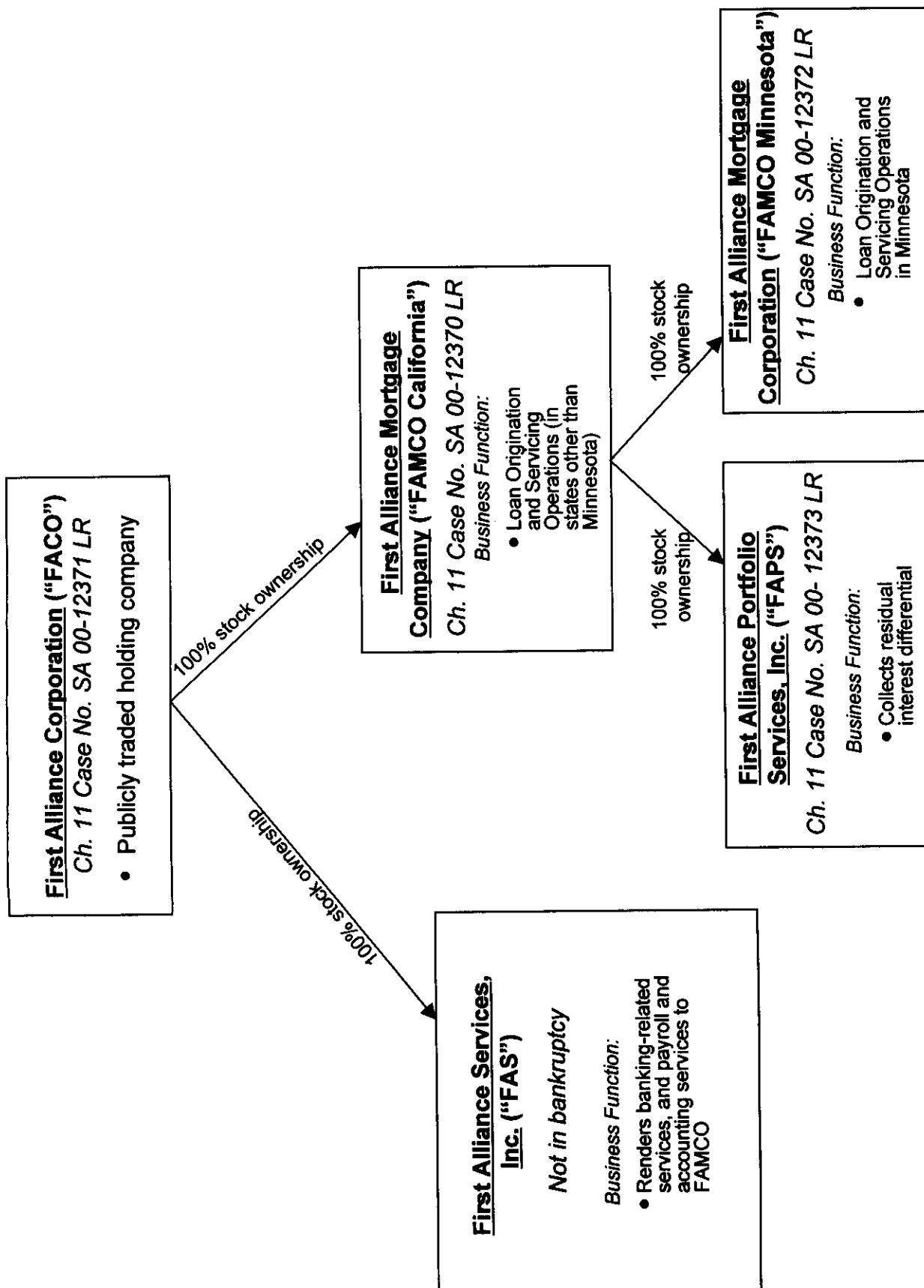
THE LOBEL FIRM LLP
18600 MACARTHUR BOULEVARD, SUITE 1100
IRVINE, CALIFORNIA 92612-2425
(949) 476-7400

12. There would be no material prejudice to creditors or interest holders were the Related Debtors' estates to be jointly administered. Indeed, as discussed above, joint administration would benefit all creditors and interest holders by substantially reducing costs and administrative burdens in general. As for the possibility of conflicts of interest, it seems highly unlikely that any conflicts exist which would prejudice the creditors or interest holders of any of the Related Debtors' estates. As discussed above, in certain respects the Related Debtors operate as an integrated enterprise. As presently constituted, it would be difficult, at best, for the Related Debtors to continue to operate without continued cooperation between them.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 5 day of April, 2000, at Sacramento, California.

FRANCISCO NEBOT



1 WILLIAM N. LOBEL - State Bar No. 93202
2 JEFFREY M. REISNER - State Bar No. 143715
3 TAVI C. FLANAGAN - State Bar No. 169156
4 MICHAEL D. GOOD - State Bar No. 176033
5 MIKE D. NEUE - State Bar No. 179303
6 THE LOBEL FIRM
7 A Limited Liability Partnership
8 19800 MacArthur Boulevard, Suite 1100
9 Irvine, California 92612-2425
10 Telephone: (949) 476-7400
11 Facsimile: (949) 476-7444

8 UNITED STATES BANKRUPTCY COURT
9 CENTRAL DISTRICT OF CALIFORNIA
10 SANTA ANA DIVISION

11 In re
12 FIRST ALLIANCE MORTGAGE COMPANY,
13 a California corporation, et al.,
14 Related Debtors.

15 Affects All Related Debtors.

16 FIRST ALLIANCE MORTGAGE COMPANY,
17 a California corporation
18 Case No. SA 00-12370 LR
 Affected by this Pleading

19 FIRST ALLIANCE CORPORATION,
20 a Delaware corporation
21 Case No. SA 00-12371 LR
 Affected by this Pleading

22 FIRST ALLIANCE MORTGAGE COMPANY,
23 a Minnesota corporation
24 Case No. SA 00-12372 LR
 Affected by this Pleading

25 FIRST ALLIANCE PORTFOLIO SERVICES,
26 INC., a Nevada corporation
27 Case No. SA 00-12373 LR
 Affected by this Pleading

Case No. SA 00-12379 LR
Chapter 11 Case
(Jointly Administered with
Case No. SA 00-12371 LR;
Case No. SA 00-12372 LR; and
Case No. SA 00-12373 LR)

TITLE OF DOCUMENT

DATE:
TIME:
PLACE: Courtroom 6D
Ronald Reagan Federal Building
411 West Fourth Street
Santa Ana, California

1 DATED: _____

2 THE LOBEL FIRM
3 A Limited Liability Partnership

4 By: _____

5 William N. Lobel
6 Jeffrey M. Reisner
7 Tavi C. Flanagan
8 Michael D. Good
9 Mike D. Neue
10 Attorneys for Related Debtors

11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

1 PROOF OF SERVICE

2 STATE OF CALIFORNIA, COUNTY OF ORANGE

3 I am employed in the County of Orange, State of California. I am over the age of 18 and not a party to
the within action; my business address is The Lobel Firm LLP, 19800 MacArthur Boulevard,
4 Suite 1100, Irvine, California.

5 On April 3, 2000, I served the foregoing document(s) described as **JOINT EMERGENCY**
MOTION FOR ORDER AUTHORIZING JOINT ADMINISTRATION OF RELATED CASES
PURSUANT TO BANKRUPTCY RULE 1015(b); MEMORANDUM OF POINTS AND
AUTHORITIES; DECLARATION OF FRANCISCO NEBOT IN SUPPORT THEREOF on the
interested parties in this action addressed as follows:

8 PLEASE SEE ATTACHED SERVICE LIST

- 9 By placing true copies thereof enclosed in a sealed envelope(s) addressed as stated above.
- 10 **BY OVERNIGHT MAIL (CCP §1013(a)&(b)):** I am readily familiar with the firm's
11 practice of collection and processing correspondence for mailing with the U.S. Postal
12 Service. Under that practice such envelope(s) is deposited with the U.S. postal service
on the same day this declaration was executed, with postage thereon fully prepaid at
19800 MacArthur Boulevard, Suite 1100, Irvine, California, in the ordinary course of
business.
- 13 **BY FEDERAL EXPRESS (CCP §1013(c)&(d)):** I am readily familiar with the
14 firm's practice of collection and processing items for delivery with Federal Express.
Under that practice such envelope(s) is deposited at a facility regularly maintained by
15 Federal Express or delivered to an authorized courier or driver authorized by Federal
Express to receive such envelope(s), on the same day this declaration was executed,
with delivery fees fully provided for at 19800 MacArthur Boulevard, Suite 1100,
16 Irvine, California, in the ordinary course of business.

17 Executed on April 3, 2000 at Irvine, California

- 18 **(STATE)** I declare under penalty of perjury under the laws of the State of California that the
above is true and correct.
- 20 **(FEDERAL)** I declare that I am employed in the office of a member of the Bar of this Court
at whose direction the service was made. I declare under penalty of perjury under the laws of
21 the United States of America that the above is true and correct.

22 
23 Linda A. Farmer

Debtor

Francisco Nebot, President
 FAMCO entities
 17305 Von Karman Avenue
 Irvine, CA 92614-6203
 FE # 8115 8718 0880

Cigna Flood Services
 Attn: President/Credit Manager
 P.O. Box 18526
 Irvine, CA 92623
 EM # EL 465082454 US

Shaun P. Martin, Esq.
 2115 Edinburg Avenue
 Cardiff, CA 92007

FE # 8115 8718 0417

Counsel for the DIP

William N. Lobel, Esq.
 Lobel & Opera LLP
 19800 MacArthur Blvd
 Irvine CA 92612-2425

Columbus Newport
 Attn: President/Credit Manager
 2111 Wilson Blvd., Ste 1200
 Arlington, VA 22201
 FE # 8115 8717 9814

Skadden, Arps, Slate, Meagher
 & Flom, LLP

Attn: President/Credit Manager
 1440 New York Avenue NW
 Washington, DC 20005

FE # 8115 8718 0428

Arthur Marquis Esq.
 Office of the United States Trustee
 411 W. Fourth Street, Ste. 9041
 Santa Ana, CA 92701-8000
 FE # 8115 8718 0879

Daehnke & Cruz
 Attn: President/Credit Manager
 4 Park Plaza, Ste 1230
 Irvine, CA 92614
 FE # 8115 8717 9803

Southern California Edison
 Attn: President/Credit Manager
 P.O. Box 600
 Rosemead, CA 91771

EM # EL 465083019 US

AdvisEcon Consulting
 Attn: President/Credit Manager
 1632 N. Randolph St.
 Arlington, VA 22207
 FE # 8115 8717 9413

Direct List
 Attn: President/Credit Manager
 P.O. Box 30280
 Los Angeles, CA 90030

Tension Envelope
 Attn: President/Credit Manager
 P.O. Box 930065
 Kansas City, MO 64193

EM # EL 465082999 US

American Express
 Attn: President/Credit Manager
 P.O. Box 0001
 Los Angeles, CA 90096
 EM # EL 465082471 US

Hankin & Co.
 Attn: President/Credit Manager
 13 Corporate Plaza, Ste 210
 Newport Beach, CA 92660

Tri-Star Group
 Attn: President/Credit Manager
 4100 S. W. 28th Way
 Ft. Lauderdale, FL 33312

FE # 8115 8717 6080

Baker & Hostetler, LLP
 Attn: President/Credit Manager
 303 East 17th Avenue, Ste 1100
 Denver, CO 80203
 FE # 8115 8717 9490

Keesal Young & Logan
 Attn: President/Credit Manager
 400 Oceangate
 P.O. Box 1730
 Los Angeles, CA 90801-1730

Counsel for Lehman Bros
 Joshua Divack, Esq.
 Jeffrey Schwartz
 Hahn & Hessen FE # 8115 8718 0844
 350 Fifth Avenue
 New York NY 10118-0075

Birnbaum, Umeda & Alcala
 Attn: President/Credit Manager
 1733 Woodside Rd, Ste 210
 Redwood City, CA 94061
 FE # 8115 8717 91799

MCI Worldcom
 Attn: President/Credit Manager
 P.O. Box 70928
 Chicago, IL 60673
 EM # EL 465083022 US

Co-Counsel for Lehman Bros
 Craig Barbarosh, Esq.
 Pillsbury Madison Sutro
 650 Town Center Drive, 7th
 Costa Mesa CA 92626-7122
 FE # 8115 8718 0873

Brown Rudnick Freed & Gesmer
 Attn: Marilyn D. Stempler Esq
 One Financial Center
 Boston, MA 02111
 FE # 8115 8717 9648

Pacific Admail
 Attn: President/Credit Manager
 1909 S. Susan St.
 Santa Ana, CA 92704-3901

Secured Creditor
 Lehman Brothers
 Attn: President/Credit Manager
 101 Hudson Street
 Jersey City, NJ 07302
 FE # 8115 8718 0862

Carney Direct Marketing
 Attn: President/Credit Manager
 15520 Rockfield Blvd., Ste C
 Irvine, CA 92618
 FE # 8115 8717 9836

Pacific Bell
 Attn: President/Credit Manager
 Payment Center
 Van Nuys, CA 91388
 EM # EL 465083005 US

Secured Creditor
 GMAC
 Attn: President/Credit Manager
 Commercial Mortgage
 PO Box 100116
 Pasadena, CA 91189-0116
 EM # EL 465082485 US

Secured Creditor

GMAC

Attn: President/Credit Manager

Commercial Mortgage

55 South Lake Ave #230

Pasadena, CA 91101-2602

Comerica Bank

Attn: Lucy Alfonso

611 Anton Blvd., 2nd Floor

Costa Mesa, CA 92626

FE # 8115 8718 0695

Creditor RSN

Fidelity Federal Bank

FE # 8115 8718 0684

Attn: David E. Cher, Esq., Sr. Counsel

4565 Colorado Blvd.

Los Angeles, CA 90039

Counsel to Fidelity Federal Bank RSN

Lance N. Jurich, Esq.

Loeb & Loeb

FE # 8115 8718 0900

1000 Wilshire Blvd, Suite 1800

Los Angeles, CA 90017-2475

Mr. Richard Yates RSN

Lehman Commercial Paper, Inc.

200 Vesey Street

New York, NY 10285

FE # 8115 8718 0724

Direct List

1950 W. Corporate Way

Anaheim, CA 92801

FE # 8115 8717 9424

The Ohio National Life Insurance Company

Attn: Mortgages and Real Estate

One Financial Way

Cincinnati, OH 45242

FE # 8115 8717 9700

GMAC Commercial Mortgage Corporation

Attn: Mark Durovka

150 South Wacker Drive, Ste. 2800

Chicago, IL 60606

FE # 8115 8717 9680